Flagstar Bank

Aggregate Accounting for Calculation of Escrow Accounting

HUD has completed revisions to Regulation X (Escrow Accounting Procedures; Final Rule). All Loan Servicers are required to be in compliance by May 1995 for all new loans originated. Loans closed on or after May 1, 1995 must be in compliance with the Final Rule. Please read the following information carefully.

The Final Rule requires that escrow/impound accounts be calculated so that the borrower has not more than a two-month cushion in the account at any time. To calculate the initial escrow/impound balance you must first determine the lowest negative balance the account would have if there were no initial balance. The Good Faith and HUD-1 will show the "initial escrow deposit" figure. This is shown in the following example:

Loan Closed:	March
First Payment Due:	May 1st
Taxes:	$900 due in July
	$500 due in December
Hazard Insurance:	$400 due in March
Total Escrows:	**$1,800 ÷ 12 = $150**

Taxes/Insurance:	$150
Monthly PMI: [1]	$50
Total Escrow/Impounds:	**$200 per month**

1. Please note that Flagstar now orders all private mortgage insurance as a monthly ZIP/ZOMP Program unless otherwise requested; this allows for the borrower to pay no up-front PMI cushion or premium at time of closing.

ESCROW/IMPOUND CALCULATIONS

STEP #1 – LOWEST PROJECTED IMPOUND BALANCE

Find the lowest projected balance by using the escrow payments and escrow disbursements to determine the ending balance for the upcoming year. In the example below, -$450 is the lowest balance the account has after paying taxes in July.

Month	Escrow/Impound Payment	Tax/Insurance Disbursement	Account Balance
April	$0	$0	$0
May	$200	$50	$150
June	$200	$50	$300
July	$200	$950	-$450
August	$200	$50	-$300
September	$200	$50	-$150
October	$200	$50	$0
November	$200	$50	$150
December	$200	$550	-$200
January	$200	$50	-$50
February	$200	$50	$100
March	$200	$450	-$150
April	$200	$50	$0

STEP #2 – INITIAL IMPOUND CALCULATION

In order calculate the initial escrow/impound balance, you would drop the negative sign from the lowest projected impound and add two monthly payments for the cushion, not including the monthly PMI payment.

Lowest projected balance in the impound account:	-$450
Lowest balance, drop the negative sign:	$450
Two monthly escrow/impound payments (cushion):	$300 (2 x $150)
Total Initial Escrow/Impound Balance:	**$750**

STEP #3 – CUSHION CALCULATION

When preparing the Initial Escrow/Impound Account Statement using the initial escrow/impound balance shown in Step #2, the lowest balance in the account using is $300, which is equal to two monthly escrow/impound payments (not including PMI) and is called the cushion. This is demonstrated in the following example:

Month	Escrow/Impound Payment	Tax/Insurance Disbursement	Account Balance
April 2012	$0	$0	$750 [2]
May 2012	$200	$50	$900
June 2012	$200	$50	$1050
July 2012	$200	$950	$300 [3]
August 2012	$200	$50	$450
September 2012	$200	$50	$600
October 2012	$200	$50	$750
November 2012	$200	$50	$900
December 2012	$200	$550	$550
January 2013	$200	$50	$700
February 2013	$200	$50	$850
March 2013	$200	$450	$600
April 2013	$200	$50	$750 [2]

2. The beginning balance in April 2012 must match the ending balance in April 2013.

3. The lowest balance in the account should always be the amount of the cushion.

Flagstar Bank requires a two (2) month cushion for all escrow/impound accounts except for PMI, unless prohibited by law (Some state agencies prohibit the collection of a cushion). All closings packages prepared must adhere to this guideline.

The following states prohibit the collection of two months cushion:

State	Cushion Allowed
Montana	1 Month
Vermont	1 Month
Nevada	No Cushion Allowed
North Dakota	No Cushion Allowed

STEP #4 – AGGREGATE ACCOUNTING ADJUSTMENT CALCULATION

Now that the Initial Escrow Deposit has been determined, you must now calculate the Aggregate Accounting Adjustment to be listed on the last line of the 1000 line series of the HUD-1 Settlement Statement. Using this same example, the reserves would be calculated as follows:

Item	Number of Months	Monthly Amount	Total
Hazard Insurance	2	$33.33	$66.66
Mortgage Insurance	0	$0.00	$0.00
July Property Taxes	10	$75.00	$750.00
December Property Taxes	5	$41.67	$208.35
		Total Initial Escrow Deposit	**$1,025.01**

The Aggregate Accounting Adjustment is the difference between the initial escrow deposit calculated in Step #4, which is $1,025.01 and the initial escrow deposit calculated in Step #2, which is $750.00, making the difference $275.01.

On the HUD-1 Settlement Statement, the collection of taxes and insurance would be shown item by item as above, then on the last line of the "Reserved Deposited with Lender" section, the Aggregate Accounting Adjustment will be shown as -$275.01 or ($275.01), thus reducing the amount of funds the borrower initially puts in escrow to the amount calculated in Step #2.

AGGREGATE ADJUSTMENT TIPS

The Aggregate Adjustment shown on the HUD-1 **must** be a negative number or zero. You **cannot** add additional funds to the borrower's initial deposit.

If the initial balance calculated under the in Step #4 is less than the initial balance calculated in Step #2, you must use the initial balance from Step #4. The Aggregate Adjustment will be $0.00, but it still needs to be reflected on the HUD-1.

In addition to the above method of calculating escrow/impound accounts, the Final Rule has also revised the Initial Escrow Account Disclosure Statement that is required to be signed at closing/settlement. For more information, refer to *Initial Escrow Account Statement*, Doc. #r3612 (Exhibit A) and *Aggregate Escrow Accounting Worksheet*, Doc. #r3613 (Exhibit B).

The "Final Rule" also states that taxes shall be disbursed on or before the earlier of either a deadline to take advantage of discounts, if available or the deadline to avoid a penalty. Unless there is a discount to the borrower for early payment, the regulation calls for payments to be disbursed as taxes are billed (i.e. taxes that are billed once per year but can be paid in installments will be paid annually. If taxes are billed twice per year, they will be disbursed twice, etc.). Escrows/impounds on new construction should be collected at the current rate.

ROLLING IN PROPERTY TAXES AND INSURANCE INTO THE LOAN AMOUNT– CONVENTIONAL TRANSACTIONS ONLY

If the borrower is establishing an escrow account for the new loan, the upcoming taxes can be rolled into the new loan amount. If the borrower is **not** establishing an escrow account, an upcoming tax payment or insurance payment is not allowed to be rolled into the new loan amount.

If the borrower has a past due tax bill that must be paid at closing, and the transaction is a rate and term refinance the borrower cannot roll the delinquent tax amount into the new loan amount, regardless of whether or not they are establishing a new escrow with the new mortgage. For cash out transactions, the new loan amount cannot include the financing of real estate taxes when the taxes are more than 60 days delinquent and an escrow account is not established, unless requiring an escrow account is not permitted by applicable law or regulation.